HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

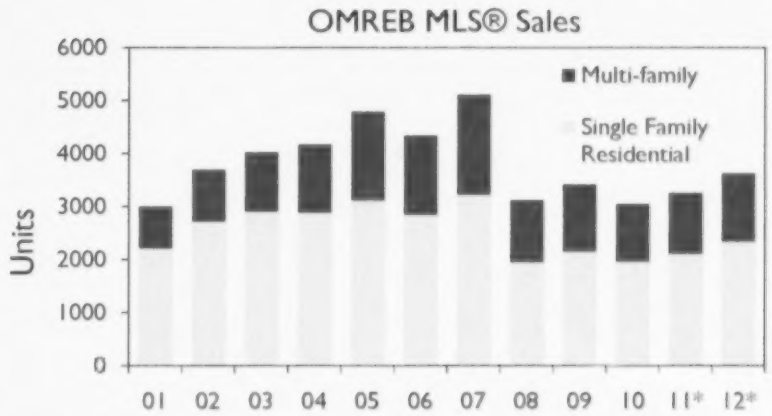
Date Released: Fall 2011

Kelowna Highlights[1]

- Demand for new and existing homes is forecast to strengthen in 2012. Favourable mortgage interest rates coupled with stronger employment growth will support modest growth in demand for housing next year.
- Sales of existing homes are expected to increase 11 per cent in 2012. Home buyers will continue to benefit from an ample supply of listings available for sale.
- Expect existing home prices to edge up by three per cent as demand improves and the supply of listings is drawn down later next year.
- Kelowna area housing starts are forecast to increase 18 per cent to 1,125 homes in 2012.

Figure 1

Demand For Existing Homes Forecast to Strengthen



Source: Okanagan Mainline Real Estate Board (OMREB). Multiples: Apartment and all Townhouses (not including Big White Ski Resort). MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association. *CMHC Forecast.

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[1] The forecasts included in this document are based on information available as of October 5, 2011, except for the addition of new information regarding the British Columbia and Nova Scotia shipbuilding contracts of October 19th, 2011.

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Existing Home Sales Expected to Move Higher in 2012

Demand for existing homes is forecast to pick up in 2012 as the provincial and regional economies record stronger employment growth. Favourable mortgage interest rates combined with strong price competition among sellers will also support modest growth in existing home sales next year. Expect 2011 existing home sales to match 2010 levels. Kelowna's existing home market began 2011 on a slower note with prolonged winter weather conditions contributing to fewer first quarter sales than the previous year. Pent-up demand among first-time home buyers, a key factor underlying the upswing in sales recorded in 2009 and earlier last year, has played a smaller role in 2011. Sales stabilized by mid-year after moving lower through the first half of 2011 and since recorded monthly year-over-year gains.

Home buyers will continue to benefit from an ample supply of listings and strong price competition in the market in 2012. The supply of detached homes listed for sale has remained at high levels. While the supply of active apartment condominium listings have come down from a year ago, the decline reflects reduced listing activity rather than an increase in sales. Kelowna's existing home market will move to a balanced market position later in 2012 as demand improves and the supply of listings slowly comes down. Moderating demand in combination with abundant supply kept the Kelowna area existing home market in borderline buyer's territory this year.

Existing home prices are forecast to edge higher later next year at about the rate of inflation. Modest growth in demand coupled with an ample supply of listings will temper upward pressure on prices. Existing home prices have stabilized after trending lower in the first half of 2011.

The annual average existing detached home price is expected to be lower in 2011, compared to last year. The decrease is largely attributed to shifts in the price distribution of sales rather than true price depreciation.

Moderately priced homes will remain the focus of demand among buyers of existing detached homes in 2012. Single family homes (detached and semi-detached units) priced at less than $400,000 accounted for 35 and 40 per cent of sales in 2010 and 2009 respectively, compared to only 24 per cent in 2008. Home buyer preferences have remained essentially unchanged during the first eight months of 2011.

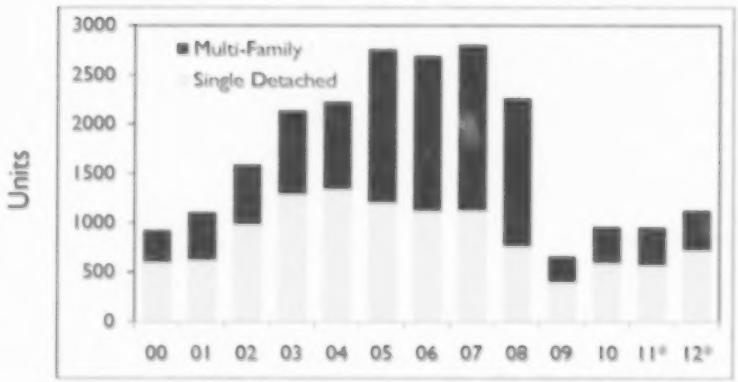
Rutland, Westbank, Glenrosa and the Core area will be the most modestly priced locations. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of home buyers seeking mid-priced single-detached homes. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna will command the highest prices.

Apartment condominiums and townhomes are expected to see stronger growth in demand next year as the price of detached homes edges higher. Multi-family sales have been slower to rebound than the detached home sector, capturing a smaller share of existing home sales since 2008. Lower new and existing home prices resulted in more competition from townhouses and single and semi-detached housing, ownership options previously beyond the reach of many local buyers. Demand for resort condominiums and second residences moderated from levels recorded during 2003-2008. Recent Canadian home buying activity in US resort markets and competition from new resort developments elsewhere in British Columbia also contributed to fewer condominium sales in the Okanagan area. Condominium and

Figure 2

New Home Construction Picks Up

Kelowna Housing Starts



Source: CMHC, *CMHC Forecast

townhouse prices have stabilized and are expected to remain essentially flat through most of 2012.

New Home Construction Forecast to Increase

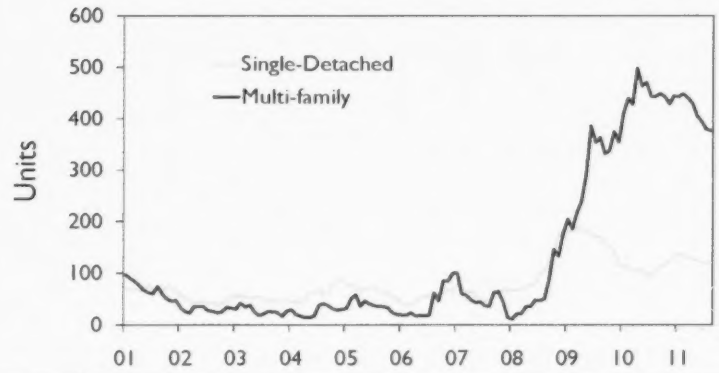
Kelowna area housing starts, led by the detached home sector, are expected to move higher in 2012. While low mortgage interest rates and a more positive employment outlook supports growth in demand for new housing, Kelowna's new home construction sector will continue to face strong price competition from a well supplied existing home market. Lingering inventories of new, completed and unoccupied condominium units will constrain the pace of multi-family construction through the first half of 2012. Housing starts are forecast at 1,125 homes in 2012, up from 950 homes this year.

Demand for detached homes has shifted away from higher priced to less costly homes. This trend is expected to continue in 2012. New detached homes in the $400,000-$550,000 price range have been the strongest sellers this year and last. Lower lot prices and other construction costs have enabled new home builders to better compete with the existing home market and attract value conscious buyers. As of August 2011, almost 70 per cent of the inventory of new, completed and unoccupied detached homes was priced at more than $600,000. Depending on the local neighbourhood, the median price of new homes absorbed in the first eight months of 2011 was five to 15 per cent lower than median prices recorded during the same period last year. Fewer buyers of resort-oriented homes and second residences have contributed to less demand for higher priced homes. Competition from the existing home market will continue to dampen upward pressure on new homes prices this year and next.

Figure 3

Inventories Move Lower

Inventory of New, Completed and Unoccupied Units



Source: CMHC

The Upper Mission, Lake Country, Black Mountain, Shannon Lake and Glenmore areas have recorded the highest levels of detached home construction to date in 2011. New home buyers have benefited from a wider selection of building lots and lower lot prices during the past 12-18 months.

Kelowna's multi-family sector will record more condominium and attached home construction in 2012 than this year. Expect condominium construction to pick up as the inventory of new, completed and unoccupied units and the supply of existing condominiums listed for sale are drawn down from current levels (See Figure 3). The inventory of new completed and unoccupied condominiums peaked at 419 units earlier last year and has since slowly declined to 272 units in August 2011. The absorption of unsold inventory is forecast to accelerate in 2012. Condominium absorption has improved in response to price reductions and builder incentives, but remains lower compared to 2003-2008 levels. New projects are expected to target local home buyers rather than out-of-region investors and those seeking resort homes and second residences. The supply of apartment condominiums under construction has also come down. Declining inventories and lower levels of supply under construction better positions this segment of the new home market for expansion in 2012.

Builders of multi-family housing have focused on smaller, home owner attached housing projects more easily released to the market in phases as well as rental apartments rather than condominium projects. As in the detached home sector, builders are targeting buyers seeking moderately priced rather than higher end homes.

Rental apartment construction accounted for the largest share of multi-family starts in 2010 and 2011 despite rising vacancy rates during the past two years. Developers of multi-family rental housing are building in anticipation of lower

vacancy rates through the longer term. With construction costs coming down, rental construction has become a more viable development opportunity than in recent years. Rental apartment starts totalled 212 privately and publicly initiated units in 2010, the highest annual level since the early 2000s. Another 100 rental housing starts are forecast in 2011. Expect fewer rental housing starts next year.

Kelowna Economy and Employment Support Demand for Housing

The Kelowna area economy and employment will support demand for housing in 2012. The commercial construction industry and service sector side of the economy including retail trade and professional, scientific and technical industries will remain sources of employment growth next year. The Kelowna International airport and the University of British Columbia – Okanagan Campus (UBC Okanagan) have emerged as employment hubs. Total employment edged higher during the first half of 2011 with growth in part-time employment accounting for most of the increase. Full-time employment is expected to trend higher in 2012 as the BC and regional economies record stronger growth.

UBC Okanagan has become a major economic driver since its creation in 2005, bringing to Kelowna direct and spin-off employment, significant capital expenditure, industry partnerships, research dollars, profile and demand for housing. Enrolment has doubled in just five years, increasing to more than 7,000 students by 2010.

The Kelowna International Airport and associated business cluster have become one of the area's largest employers. Kelowna's airport runway has now been extended to accept direct overseas flights. Further expansion to the terminal facilities will proceed through 2016. The Kelowna International Airport is now ranked Canada's tenth busiest airport with passenger volumes reaching record levels in 2010. Looking forward, improved accessibility will enhance the area's appeal to tourists, business and potential home buyers.

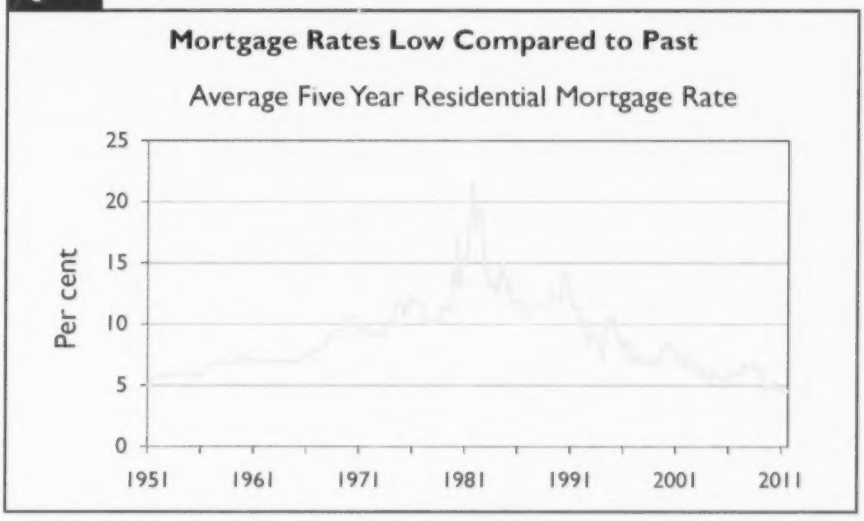
Other projects of significance to the local economy include the on-going expansion of Kelowna General Hospital to broaden health care services currently available only in Metro Vancouver. This becomes an important consideration for those seeking to relocate to this region such as retirees and seniors. Residential and non residential construction on Westbank First Nations lands will continue to generate additional economic activity and employment growth.

Mortgage Rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Figure 4



Source: Bank of Canada.

Forecast Summary
Kelowna CMA
Fall 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales [1]	3,445	3,660	3,289	3,500	6.4	3,900	11.4
MLS® New Listings [1]	11,737	9,515	9,987	9,400	-5.9	10,500	11.7
MLS® Average Price ($) [2]	541,131	489,453	525,491	512,000	-2.6	525,000	2.5
New Home Market							
Starts:							
Single-Detached	765	404	595	575	-3.4	700	21.7
Multiples	1,492	253	362	375	3.6	425	13.3
Semi-Detached	98	62	68	70	2.9	110	57.1
Row/Townhouse	207	55	70	80	14.3	115	43.8
Apartments	1,187	136	224	225	0.4	200	-11.1
Starts - Total	2,257	657	957	950	-0.7	1,125	18.4
Average Price ($):							
Single-Detached	716,494	751,103	769,670	725,000	-5.8	725,000	0.0
Median Price ($):							
Single-Detached	599,900	582,645	610,000	575,000	-5.7	585,000	1.7
New Housing Price Index (% chg) (B.C.)	2.1	-6.5	2.6	0.0	-	0.5	-
Rental Market							
October Vacancy Rate (%)	0.3	3.0	3.5	5.5	2.0	4.5	-1.0
Two-bedroom Average Rent (October) ($)	967	897	898	910	-	920	-
One-bedroom Average Rent (October) ($)	803	737	740	745	-	755	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	87,200	87,500	94,600	95,500	0.95	97,500	2.09
Employment Growth (%)	7.8	0.3	8.1	1.0	-	2.2	-
Unemployment rate (%)	5.0	8.8	7.7	8.0	-	7.5	-
Net Migration (B.C.)	64,901	59,978	42,027	43,800	4.2	56,100	**

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

(1) The 2009 migration data is a forecast

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM), OMREB (Okanagan Mainline Real Estate Board).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over.

(1) MLS® Sales and New Listings = Total Residential. (2) MLS® Average Sale Price = Single Family Residential.

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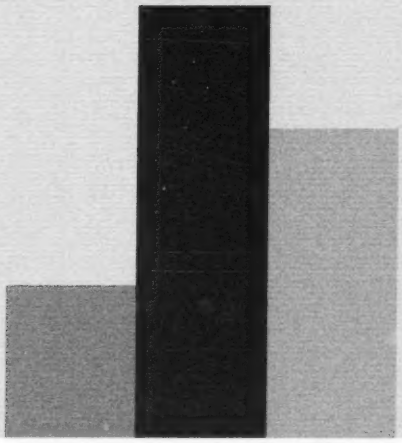

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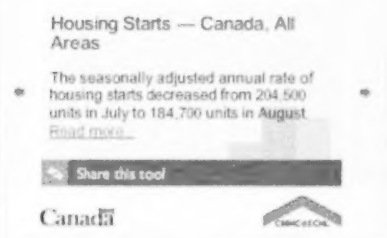
Housing Starts — Canada, All Areas
The seasonally adjusted annual rate of housing starts decreased from 204,500 units in July to 184,700 units in August.
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